What is carbon pricing?

Carbon pricing is an economic tool for reducing carbon dioxide emissions in order to curtail global warming. The system assigns a price for the negative externalities, or societal costs, associated with carbon dioxide emissions and the negative consequences associated with them. Carbon pricing can be implemented either as a carbon tax or a emissions trading, or cap-and-trade, system.

1 Carbon pricing attempts to pay for the **external costs** of carbon emissions such as damage to crops and healthcare costs linked to environmental changes resulting in extreme weather events like heat waves and droughts

2 Instead of imposing regulations on polluters, carbon pricing provides a **market incentive** to reduce emissions or adjust to the increased prices associated with carbon emissions

3 Carbon pricing allows **renewable forms of energy** to be competitive in a market otherwise flooded with cheaper forms of fuel with larger carbon footprints

4 An emissions trading, or **cap-and-trade**, system places a legal limit on carbon emission and allows industries that fall below the cap to sell their extra allowances to those that exceed it.

5 A **carbon tax** defines a tax rate for greenhouse gas emissions or the carbon content of fossil fuels and sets a pre-defined price for carbon. Tax revenue either subsidizes renewables or is returned to citizens as dividends to their IRAs

6 40 countries and more than 20 cities, states and provinces use some form of carbon pricing

Sources: The World Bank, “What is Carbon Pricing?”